Fully seizing the potential benefits of a digital euro

A Response from the Veblen Institute to the Commission's Proposal for a regulation on the digital euro

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This policy note presents and explains our feedback to the Commission' Proposal for regulation on the digital euro (COM(2023) 369). Introducing the digital euro as a new means of payment is an opportunity not to be missed, and we welcome the Commission's decision to initiate the legislative process on the matter, following the investigation work conducted by the ECB. But the Proposal only goes half-way towards the objective as it is stated by the Commission itself: to make the digital euro widely accepted and used by individuals and businesses across Europe. The digital euro's success will depend on its value-added compared to existing payment services. In particular, we believe that it is by affirming the digital euro as a public means of payment that we can make it a safer, cheaper, more inclusive, privacy-enhancing, and more resilient alternative to existing digital payment solutions.

The Veblen Institute for Economic Reforms is a politically independent, not-for-profit think tank founded in 2011 and based in Paris, France. It promotes economic reforms and policies for the ecological transition. Its work is supported by private donors, most importantly by the Charles-Leopold Mayer Foundation.

Since 2022, it hosts a Digital Euro Watch to monitor the preparations for the digital euro, and published a report on this issue in January 2023: "A Digital Euro for a Better Monetary System: The Case for a Public Option".

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Executive Summary

Below is a synthesis of our feedback to the Commission' Proposal, developed in the rest of this document.

On the legal tender status of the digital euro:

- We welcome the legal tender status that would be given to the digital euro. This status is essential for making the digital euro an official means of payment. Its mandatory acceptance would guarantee its widest usability, thus promoting its adoption and participating in nurturing the trust placed in it.
- However, as shown by the evolution of physical cash, a *de jure* legal tender digital euro will not necessarily translate into a *de facto* legal tender digital euro - that is, in its general acceptance. Clear common standards for control and sanction procedures should be included in the Proposal so that the respect of the legal tender status does not depend on discretionary decisions made by merchants.
- Exceptions to the legal tender principle should be kept to a minimum.

On the digital euro as new means of payment:

- The digital euro is a much welcome addition to the European retail payment space. It would offer efficient, pan-European and instant payment services, covering use-cases not yet provided for by existing private payment services.
- We welcome the planned availability, as of first release, of both an online and an offline digital euro.
- We regret that commercial banks are foreseen as main providers of digital euro services. They are put in a privileged position due to their existing customer relationships, but other types of providers should be more largely considered.

On the distribution of the digital euro:

- As a form of public money, the digital euro should not be accessible only via private intermediaries who may have no interest in distributing it. So we very much welcome the fact that public entities are also considered as potential digital euro services providers.
- However, we oppose the implicit idea that the provision of digital euro services by public entities is only a solution of last resort reserved for people who would not have access to the digital euro via private providers.
- Accessing the digital euro via public entities should be a real and attractive option for all users. Member States should not only be required to "designate" public entities for this task, but more importantly to provide them with the necessary resources to perform this task adequately for all.
- A direct option provided by the Eurosystem (whether the ECB itself or the national central banks) should not be ruled out and should, on the contrary, be further explored as a complement to other distribution models.

<u>On the benefits of the digital euro in regard to access to risk-free money:</u>

- As a direct liability of the Eurosystem, the digital euro could be a useful safe haven, especially in times of financial turmoil. Rather than relying on (mostly private) intermediaries, offering users a direct access to the Eurosystem balance sheet would be more efficient in ensuring the safety of digital euros.
- The "do no harm" approach in regard to commercial banks and their deposits should not come at the expense of the accessibility and usability of the digital euro. And rather than a source of financial instability, the digital euro should be seen as an opportunity to reduce the systemic risk of the financial system.
- Therefore, digital euro accounts should not be weighed down with holding limits, whose costs may outweigh benefits, especially if they reduce the attractiveness and value-added of the digital euro.

<u>On the benefits of a digital euro in regard to access to free payment services:</u>

- We welcome the ambition of free digital euro services for users. However, although payment service providers (PSPs) would be mandated to provide basic digital euro services free of charge, most of them (especially commercial banks) would be in a position to cross-sell digital euro services and their own services, thus adding indirect costs for users.
- Considering the structure of the costs of the digital euro infrastructure (to be largely borne by the Eurosystem), relying on a market logic for the remuneration of PSPs would result in rent incomes, to the detriment of users.
- Provisions options devoid of any profit motive (through not-for-profit entities) should be given greater importance in order to ensure effective free access to the digital euro.

<u>On the benefits of a digital euro in regard to universal access to digital payments:</u>

- Given the non-compliance of commercial banks with the payment accounts directive (PAD) in regard to the provision of basic payment accounts without discrimination, relying on mandatory provision for digital euro accounts cannot be considered as guaranteeing accessibility for all.
- Universal access to digital euro accounts would be better guaranteed by not-for-profit providers able to cater for the needs of vulnerable groups.
- To ensure universal access, the offline digital euro (as a bearer instrument like cash) should be accessible to non-registered users through universal access devices.

<u>On the benefits of a digital euro in regard to financial inclusion:</u>

- Inclusive usage features for the digital euro (such as audio features for blind people for example) should be included in the legislation, after being developed with concerned persons. All PSPs should be mandated to include these features in their front-end solutions. The front-end solution developed by the ECB should be the benchmark of such inclusive features.
- Beyond inclusive features, in-person services should also be guaranteed by the regulation. Public entities, in particular, should be able to offer such in-person services

at a time when bank branch closures are accelerating.

On the benefits of a digital euro in regard to privacy:

- In response to the "surveillance capitalism" led by private corporations (via the widespread collection and commodification of personal data), a fully public option for digital euro payments should be made available, for involved data to be processed by entities without interests in monetising them.
- The offline digital euro should offer the same level of anonymity as cash does today: it should be possible to store it on non-registered (non-nominative) devices.

On the benefits of a digital euro in regard to the resilience of payment systems:

- The digital euro should not be limited to a "payment scheme" but also offer an "end-to-end solution" for payments. In this way, it would bring redundancy to existing networks and increase the resilience of the payment system as a whole.
- The offline digital euro should be exchangeable consecutively in a fully peer-to-peer manner, so as to remain available in the event of internet or power outage. Low-energy smartcards should be provided for that purpose.

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Context and relevance of the Commission's proposal

The European Commission published a "Single Currency Package" at the end of June.[1] It's made of two proposals: one on the legal tender status of euro cash and one on the establishment of the digital euro. This comes after an investigation phase of 2 years, led by the European Central Bank (ECB), about the potential issuance of a retail CBDC (central bank digital currency). These Proposals mark the beginning of a legislative process for new regulations to be adopted by the European Parliament and Council. One of the main outcomes would be for the ECB to get a green light to issue a digital euro.

The Proposal for the establishment of the digital euro sets out a number of landmarks that would determine the concrete shape of the digital euro, its functionalities, and its potential benefits for users. Considering that a digital euro could be an important policy tool in the near future, it is crucial that choices made about its design make it fit for purpose.

What is the Digital euro ?

Currently, our digital means of payment all rest upon "private monies", issued and managed by private actors such as commercial banks and card schemes (in particular, Visa and Mastercard).

- That is because public money (that is central bank money) is for now only accessible to the general public in the form of cash (euro coins and notes). Central bank money also exists in digital form, but is currently only accessible to selected financial institutions, that use it for "wholesale" payments.
- A digital euro would be a central bank digital currency (CBDC), that would make central bank money accessible in digital form to the general public, for "retail" payments.
- A digital euro is not aimed at replacing cash, but rather at complementing it in a time of ever-increasing digitisation.
- From a practical point of view, a digital euro would be an extra means of payment that people and businesses could choose to use. This means of payment would be based on risk-free public money, would operate on European payment systems and would be uniformly usable in all of the euro area.
- The decision to actually issue a digital euro would be taken at a later stage.

In a previous contribution[2], we identified how a digital euro could contribute to a better monetary system. In particular, **a digital euro can be safer, cheaper, more inclusive, privacy-enhancing, and more resilient than existing digital payment solutions.** These areas are where

[1] The release was postponed several times, finally taking place after an earlier version was leaked. Links to the different documents of the digital euro package are available here.

[2] Dissaux T., Kalinowski W. (eds.), 2023, "A Digital Euro for a Better Monetary System: The Case for a Public Option", Veblen Institute for Economic Reforms.

existing private digital means of payment have poor track records and are therefore **where a digital euro could bring most value if it is offered as a true public option**. In its Proposal, the Commission does state this intention: "A digital euro would offer a public alternative to private digital means of payments"[3]. In what follows, we will assess the proposal in light of this ambition and evaluate the ability of the outlined digital euro to bring benefits to people and businesses in the Euro area.[4]

I. The digital euro as outlined by the Commission's Proposal

A. *De jure* legal tender public digital money

Following the Commission's Proposal, the digital euro would be endowed with the status of legal tender. This means that in a transaction, a payee could not refuse digital euros from a payer. Concretely, a merchant would not be allowed to refuse a payment in digital euro from a client: users would have the certainty to be able to use the digital euro in all situations.

Currently, only euro banknotes and coins have this status of legal tender. However, practice has largely deviated from law as physical stores have increasingly turned "cashless" in recent years, in contradiction with the legal tender status of cash. According to ECB surveys[5], between 2019 and 2022 the acceptance of cash in shops has declined in all euro area countries except the Netherlands (where it stayed at the same level). Unclear regulation and differences in national interpretations, coupled with evolutions in payment practices accelerated by covid-19 restrictions led to the weakening of the legal tender status of cash. We therefore welcome the fact that a parallel legislative proposal deals specifically with this issue. In this respect, the Single Currency Package usefully reasserts the role of public money, and this whatever its form: physical or digital. Giving legal tender status to the digital euro is indeed essential in instituting the digital euro as a new public and official means of payment. Its mandatory acceptance would guarantee its widest usability, thus promoting its adoption and participating in nurturing the trust placed in it.

Some exceptions to the mandatory acceptance principle are laid down by the Proposal, in particular for SMEs when they do not accept other digital means of payment. Other exceptions could also be added in the future, by the Commission via delegated acts, or by Member States.

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[3] Unless otherwise stated, quotes are from the European Commission's "Proposal for a Regulation of the European Parliament and of the Council on the establishment of the digital euro".

[4] The international dimensions of the establishment of a digital euro (its use in non-euro zone states or for cross-currency exchanges) are out of the scope of this analysis. The Commission published a dedicated "Proposal on the provision of digital euro services by payment services providers incorporated in member states whose currency is not the euro".

[5] ECB, 2022, "Study on the Payment Attitudes of Consumers in the Euro Area (SPACE) – 2022".

We believe these exceptions should not be multiplied, so as not to undermine the legal tender status of the digital euro.

Furthermore, controls and sanctions should be in place to guarantee the effective application of the legal tender status. It is mainly because no real control mechanisms are currently in place and no sanctions are applied that cash has lost its effective legal tender status, as merchants can decide on the means of payment they accept without ever being held accountable. Their refusal of cash is supposed to be grounded in a "good faith principle" while cashless policies have become increasingly common. The Commission's Proposal on the legal tender of euro banknotes and coins does stipulate that Member States "shall monitor", "set out the remedial measures" if needed and "lay down the rules on [effective, proportionate and dissuasive] penalties [...] applicable to infringements". But without minimum common standards for control and sanction procedures, the concrete implementation of the legal tender status risks falling short, in the same way as today. The Proposal could, for example, define sanctions for merchants refusing legal tender (a fine proportional to the merchant's revenue) and guarantee that citizens and consumers organisations have access to mechanisms allowing to enforce the legal tender status.

Finally, accessibility is as important as acceptance for the effective usability of a means of payment (and hence for its concrete legal tender status). For the digital euro to be effectively legal tender, it also needs to be as widely accessible as possible. Guaranteed acceptance must go hand in hand with guaranteed access (see below).

Our feedback

- We welcome the legal tender status that would be given to the digital euro. This status is essential in instituting the digital euro as an official means of payment. Its mandatory acceptance would guarantee its widest usability, thus promoting its adoption and participating in nurturing the trust placed in it.
- However, as shown by the evolution of physical cash, a *de jure* legal tender digital euro will not necessarily translate into a *de facto* legal tender digital euro - that is, in its general acceptance. Clear common standards for control and sanction procedures should be included in the Proposal so that the respect of the legal tender status does not depend on discretionary decisions made by merchants.
- Exceptions to the legal tender principle should be kept to a minimum.

B. A digital euro wallet for use on- and off-line, mostly provided by commercial banks

The Commission's Proposal establishes a set of "basic digital euro payment services" that all users should have access to. These services would enable users:

- to hold a digital euro account and consult its balance and transactions,

- to fund and defund this digital euro account from / to their bank account (or cash[6]),
- to initiate and receive payments in digital euro.

Concretely, a digital euro account would be akin to a digital wallet allowing to transact in digital euro (rather than in commercial bank money). Users would have the option to use it for their everyday transactions, in store and online, as well as for person-to-person transactions. It is anticipated that the digital euro could also be used for government-to-person and person-to-government transfers[7]. All digital euro transactions would be settled instantaneously (funds would be received by the payee without any time lag). While the Proposal does not go into the details of the "front-end" solutions to be implemented, for users the digital euro would most likely take the form of a mobile app that they could use to transact (for example via NFC or a QR code). It could also be accessible via an online website.

The Proposal states that the digital euro should be usable both on-line and off-line. On-line, the digital euro would circulate in the same way as regular digital money: funds would be held by a financial institution and credited or debited on the books of this institution on behalf of users (this corresponds to an account-based version of the digital euro). Off-line, digital euros would circulate more like cash does: digital euro units would be physically stored in a "local storage device" (for example the user's smartphone) and could be exchanged without the involvement of any third-party (this would be akin to a value-based solution[8]). So digital euros would be "recorded as holding balances or units of value".

These elements would translate into several positive features for the digital euro:

- The digital euro would bring improvements to the European payment space, which is still largely fragmented. At present, there is no single digital means of payment that can be used uniformly across all of the euro area, the roll-out of instant payments is still uneven, and some use-cases such as person-to-person payments lack unified solutions. The digital euro would address these needs and offer efficient, pan-European and instant payment services.
- Making the digital euro usable both online and offline would be a useful innovation. No existing digital means of payment can be used offline at present and an offline version of the digital euro has the potential to bring significant benefits regarding inclusion, privacy and resilience (see below). The fact that the digital euro would be available online and offline "as of the first issuance of the digital euro" is good news, as past communications from the ECB suggested that the offline version could be released only at a later stage due to technological uncertainties.

[6] This would depend on the payment service provider, which shall enable funding from / defunding to euro banknotes and coins only when the considered provider already provides cash services.

[7] This could apply to receiving social transfers or paying taxes for example.

[8] For the different operating models possible for a digital euro, see chapter 2 of Dissaux T., Kalinowski W. (eds.), op. cit.

Despite these positive elements, several technical and organisational choices regarding the concrete implementation of the digital euro may limit the extent of the benefits that it may bring, as discussed below.

One crucial element is the distribution of digital euro services. Whether off-line or on-line, digital euro services would need to be provided by a particular institution, a digital euro services provider, which can be any type of "payment service provider" (PSP) as defined by the Directive on payment services (2015/2366): credit institutions, electronic money institutions, post office giro institutions, payment institutions, the ECB and national central banks, Member States or their regional or local authorities (with restrictions for these last two categories, see below). Following the Commission's Proposal, for most users this provider will be their current commercial bank: "credit institutions that provide payment services [...] shall, upon request of their clients, provide those persons with all basic digital euro payment services". Banks clients would have the possibility of adding digital euro services to their current banking services: digital euro services would be integrated into their bank's existing front-end solutions, chiefly the bank's mobile app and the bank's online website (where a new type of account will be added). For most users, this would be the easiest and most straightforward way to gain access to digital euro services and banks would be in a privileged position to provide these services. While users could in theory turn to other service providers, including providers with which they do not have any prior relation, this raises some questions as basic digital euro services are supposed to be provided free of charge (see below). A private provider would have little interest in providing basic digital euro services to someone with whom it has no other business relationship. We will see that other types of digital euro providers should be more largely considered.

Our feedback

- The digital euro is a much welcome addition to the European retail payment space. It would offer efficient, pan-European and instant payment services, covering use-cases not yet provided for by existing private payment services.
- We welcome the planned availability, as of first release, of both an online and an offline digital euro.
- We regret that commercial banks are foreseen as main providers of digital euro services. They are put in a privileged position due to their existing customer relationships, but other types of providers should be more largely considered.

C. Public money without clear public involvement

Following the Commission's proposal, the digital euro is meant to "be offered as a public digital means of payment, alongside the existing private digital means of payment". Such a public digital means of payment is indeed welcome, as the current payment system exhibits issues and inefficiencies that result from the structure and working of this profit-driven market and the vested interests of incumbent actors. It is the main reason why the key message of our previous report[9] was that for the provision of the digital euro, a true public option must exist. Contrary to what the ECB has been suggesting from the start, we believe the digital euro should not simply be a "raw material that we would hand over to banks"[10], nor should it be accessible via private intermediaries only. As we cannot expect the market to fulfil all needs nor to realise all policy objectives, the digital euro should also be accessible via public intermediaries and via solutions provided directly by the Eurosystem.

The Commission's proposal is a step in the right direction, as "this initiative ensures that public entities (local or regional authorities or postal offices) should also distribute the digital euro". This is a clear departure from earlier discourses, which did not consider public providers at all. Yet, it seems clear that this public provision of the digital euro is only seen by the Commission as a second-best option, dedicated to particular cases: "public entities (local or regional authorities or postal offices) should also distribute the digital euro *to natural persons that do not wish to open a digital euro account at credit institutions or other payment services providers*." (emphasis added). As discussed above, commercial banks are meant to be the main providers of digital euro services and it is expected that most users will turn to them. As a result, in the Commission's proposal, public entities are given only a palliative role and are not meant to offer a real alternative to private providers in general and commercial banks in particular.

Moreover, the Commission's Proposal rules out the possibility of a direct option, that is of a digital euro provided directly to users by the Eurosystem without relying on any intermediary: "No account or other contractual relationship would be established between the digital euro user and the European Central Bank or the national central banks" and "For the purpose of digital euro payment services, digital euro users shall only enter into a contractual relationship with PSPs." As we have argued earlier, this option would however be desirable as an additional choice for people and businesses and as an alternative option levelling the playing field. It is also a feasible option, for example an ECB app, a front-end service provided directly by the Eurosystem.

That the digital euro would be based on a payment instrument created by a public institution does not suffice to make it a truly public means of payment. In a public good approach, the digital euro would be a truly public means of payment if it would be universally accessible and usable, as well as free to use for everyone. This does not depend on its underlying characteristics but on its concrete modalities as experienced by its users, that will depend on the behaviour of the providers involved. The central question here is who's best placed with the task of distributing the digital euro to the general public.

Clearly, commercial banks do not have any interests in distributing the digital euro. Early on in the process, they openly opposed the project. Commercial banks already distribute payment services, from which they earn significant revenues: for them, a digital euro mostly represents undesirable competition. Entitling them with the distribution of digital euro services thus puts

[9] Dissaux T., Kalinowski W., op. cit.

[10] Panetta, F., 2021, "Interview Conducted by Martin Arnold", Financial Times, 20 June 2021.

them in a situation of conflict of interest and puts the digital euro at risk of being simply unsuccessful as it will be rendered unattractive to users.[11]

The Commission's Proposal does foresee the risks associated with private intermediaries not being willing to provide digital euro services: "In case the availability of the digital euro were contingent upon free business decisions by all payment service providers, the digital euro could be marginalised or even excluded by the payment service providers." The solution favoured by the Commission is to oblige commercial banks to provide digital euro services. As banks could comply while still favouring their own services, the Commission's Proposal even stipulates that "Digital euro payment accounts should be accessed via one [of] the main pages of the Internet website or an application, or any other front-end services, *on an equal footing with non-digital euro payment accounts*." (emphasis added) Trying in this way to force unwilling private actors to supply what should be a public service may well translate into a missed opportunity for the digital euro.

Instead of a secondary role, public entities should be given a full role in the distribution of digital euro services. Public interest should have the centre stage rather than the concern of preventing "crowding out payment services provided by the private sector"[12]. Consequently, accessing the digital euro via public entities should be a real and attractive option for all users. Member States should be mandated not only to "designate" the public entities in charge of this task (as currently proposed by the Commission), but also to ensure these entities have the correct resources to fulfil this task for the entire population of each Member State.

In a complementary way, a front-end solution offered directly by the Eurosystem (whether the ECB itself or the national central banks) should not be ruled out. Firstly because it is an available policy option discarded without any clear justification. We share the view of the European Commission Regulatory Scrutiny Board[13] that all available options should be duly considered and that the European Commission's impact assessment does not include divergent views from different stakeholder groups and does not sufficiently inform on the reasons for the lack of support of alternative policy options. It is particularly relevant for the direct option: giving users the possibility to use an "ECB app" would broaden user choice as well as level the playing field for all providers.

Our feedback

- As a form of public money, the digital euro should not be accessible only via private intermediaries who may have no interest in distributing it. So we very much welcome the fact that public entities are also considered as potential digital euro services providers.
- However, we oppose the implicit idea that the provision of digital euro services by

[11] See also Monnet C., Niepelt D., 2023, "Why the digital euro might be dead on arrival", VoxEU, 10 August 2023, https://cepr.org/voxeu/columns/why-digital-euro-might-be-dead-arrival

[12] A concern raised by the European Banking Federation (see EBF, 2023, "EBF vision on a Digital Euro Ecosystem") and well heard by the ECB.

[13] See "Regulatory Scrutiny Board Opinion: Establishing the Digital Euro".

public entities is only a solution of last resort reserved for people who would not have access to the digital euro via private providers.

- Accessing the digital euro via public entities should be a real and attractive option for all users. Member States should not only be required to "designate" public entities for this task, but more importantly to provide them with the necessary resources to perform this task adequately for all.
- A direct option provided by the Eurosystem (whether the ECB itself or the national central banks) should not be ruled out and should, on the contrary, be further explored as a complement to other distribution models.

II. Fully seizing the potential benefits of a digital euro

The success of the digital euro will first and foremost rest upon its value-added compared to existing payment services. In particular, a digital euro can be safer, cheaper, more inclusive, privacy-enhancing, and more resilient than existing digital payment solutions.[14] As a public policy initiative, it is in these areas where market solutions have shown to be economically and socially suboptimal that improvements should be targeted. In this section, we analyse the potential benefits of a digital euro against the content of the Commission's Proposal.

A. Risk-free money

The foundational element of any CBDC is to be a liability of the central bank, rather than a liability of a private financial institution. Currently, the electronic euros we use every day are liabilities of our commercial banks. As this type of financial institution can go bankrupt, this type of money is inherently risky (even if prudential regulation and public guarantee schemes try to reduce this risk). In contrast, a central bank cannot go bankrupt. As a result, its liabilities are completely risk-free.

Logically, the Commission's Proposal states that "The digital euro shall be a direct liability of the European Central Bank or of national central banks towards digital euro users." The digital euro would thus open the access to risk-free money for all Europeans. This is welcome as the digital euro could be a useful safe haven, especially in times of financial turmoil. Yet, as digital euro services would be provided by (mostly private) intermediaries, digital euro accounts could be put at risk if a provider fails. That is why the Proposal also provides for accounts transfer mechanisms so as "the insolvency of payment service providers would not affect digital euro users." In this case, offering users a direct access to the Eurosystem balance sheet would be more efficient in ensuring the safety of digital euros.

But there is another provision of the Proposal that greatly impedes this access to the digital euro and thus to risk-free money: that "The European Central Bank should develop instruments to limit the use of the digital euro as a store of value, including holding limits [...] with the view of safeguarding financial stability." Such instruments have been investigated by the ECB almost

[14] See also Positive Money Europe, Veblen Institute for economic reforms, 2023, "A Digital Euro for the People".

since the beginning of the digital euro project, as they are the main response to the concerns of the banking industry, which the Commission endorses in its Proposal: "An unrestricted use of digital euro as a store of value could endanger financial stability in the euro area, with adverse effects on credit provision to the economy by credit institutions." Here, it is the mass conversion of commercial bank deposits to digital euros that is seen as an undesirable potential. To prevent this deposits flight and its stated adverse effects for the banking sector, digital euro accounts would be capped (the amount of 3.000 € per person has been around for a while) or amounts in excess of this limit would be affected by a "penalising remuneration"[15] (that is, a negative interest rate).[16]

However, this concern for bank disintermediation is more of a fear (originating from and fuelled by the banking sector) than an empirically founded risk. A recent analysis conducted for the European Parliament states that "a cap on the amounts of digital euros that individuals can hold would impair its greatest benefits for the public – its availability as a safe haven for store of value in crisis times – and ultimately defeat the purpose of its introduction [...]. The existing literature does not arrive at clear conclusions on how the indirect effects of unrestricted access to CBDC would look and can therefore not be understood as unequivocally supporting the ECB's restrictive stance."[17]

Furthermore, having unrestricted access to risk-free money could also - and conversely to the banking industry's discourses - bring more stability to the financial system, by reducing the systemic nature of too big to fail commercial banks. Beyond payment aspects, introducing a digital euro could also be the occasion to reshape our financial system.[18] This would start by introducing a digital euro not weighed down with holding limits.

The conundrum of implementing holding limits for digital euro accounts

The will to implement holding limits is representative of the hierarchy of objectives, with holding limits clearly conflicting with other objectives attached to the digital euro, such as usability and inclusion. Implementing these holding limits comes with a number of complexities that weigh on the overall digital euro project.

- To avoid payments in digital euro to be rejected because of the holding limit, each digital euro account could be linked to a non-digital euro account. Any digital euros received in excess of the holding limit would be automatically converted to

[15] Panetta, F., 2021, "Evolution or Revolution? The Impact of a Digital Euro on the Financial System", Speech at a Bruegel online seminar, 10 February 2021.

[16] See also Bindseil, U., Panetta, F., Terol, I., 2021, "Central Bank Digital Currency: Functional Scope, Pricing and Controls", ECB Occasional Paper Series, n° 286.

[17] Hofmann, C., 2023, "Digital Euro: An Assessment of the First Two Progress Reports. The Case for Unlimited Holdings of Digital Euros", Economic Governance and EMU Scrutiny Unit (EGOV) in-depth analysis requested by the ECON committee.

[18] See van der Linden, M. J. et al., 2023, "Digital euro — opportunity, or solution in search of a problem?", euobserver, 17 July 2023, https://euobserver.com/opinion/157231.

commercial bank money ("waterfall" mechanism).
- An individual could have several digital euro accounts (including with different service providers) and could also have joint digital euro accounts. All users will have to allocate their individual holding limit to their different accounts.
- For the enforcement of holding limits, "payment service providers in charge of distributing the digital euro should verify whether their prospective or existing customer already has digital euro payment accounts" and verify that their allocated holding limits add up to their individual holding limit. This will necessitate the establishment of "a single access point of digital euro user identifiers and the related digital euro holding limits".
- The enforcement of holding limits would necessitate that each and every digital euro unit is registered (that is, linked to a user identifier, or to a local storage device - itself linked to a user identifier). This contradicts with financial inclusion objectives and limits the scope for a fully anonymous digital euro.

Our feedback

- As a direct liability of the Eurosystem, the digital euro could be a useful safe haven, especially in times of financial turmoil. Rather than relying on (mostly private) intermediaries, offering users a direct access to the Eurosystem balance sheet would be more efficient in ensuring the safety of digital euros.
- The "do no harm" approach in regards to commercial banks and their deposits should not come at the expense of the accessibility and usability of the digital euro. And rather than a source of financial instability, the digital euro should be seen as an opportunity to reduce the systemic risk of the financial system.
- Therefore, digital euro accounts should not be weighed down with holding limits, whose costs may outweigh benefits, especially if they reduce the attractiveness and value-added of the digital euro.

B. Free payments services

Currently, every digital payment is associated with fees, collected by both the card scheme and the issuing bank (the bank of the payer). In this context, the free competition for the provision of payment services did not translate in the efficiency gains that were expected. Payment markets are highly concentrated (in particular, with a duopoly of card schemes), fees have remained high and even had a tendency to increase in recent years, while a number of abusive practices have been pointed out.

As essential infrastructures of our socioeconomic activities, payment networks should be public goods and as such should be free to use. The introduction of the digital euro is the occasion to provide such free payment services, as the digital euro would be developed and provided by non-for-profit institutions: the ECB and national central banks. Most of the costs would be the initial costs of setting-up the payment system, costs that will be borne by the ECB. Once the system is in place, the marginal cost of each payment would be close to zero, allowing for free payment services for users.

The Commission's Proposal stipulates that basic digital euro services would be "offered for free to natural persons." Payment services providers offering these basic digital euro services would not be allowed to charge any fee for them. The legal tender of the digital euro would also prohibit surcharges on payments made in digital euro. These provisions constitute a minimum which, in view of the approach chosen for the distribution of the digital euro, do not guarantee an effective free access to digital euro services for all.

First, as described above, the main way of accessing the digital euro will be for users via their respective commercial banks. But as clients of banks, we already pay fees for our accounts and banking services. So accessing digital euro services in this way cannot be considered to be really free. The Commission's Proposal states that users could access digital euro services via any PSP offering such services, even if the user is not a client of this particular PSP. But we don't see how private (for profit) PSPs would willingly provide services for which they cannot generate revenues. Only not-for-profit providers, including public ones, can be expected to provide digital euro services independently of revenues considerations. Again, such public actors should thus be given a bigger role in the distribution of the digital euro in order to ensure its widest possible free access.

More generally, the Commission's Proposal favours a remuneration model not different from the one in place for existing card payments. In doing so, it follows a market logic that is at odds with the public nature of the digital euro. In addition to giving the main role to private intermediaries (and commercial banks in particular) for the distribution of the digital euro, the Proposal is also concerned with the profits these actors would be able to make in distributing the digital euro. Indeed, beyond those for basic digital euro services for natural persons, fees are far from being ruled out and it is considered that these fees should cover "the relevant costs incurred by payment services providers, *including a reasonable margin of profit*" (emphasis added). These fees will fall primarily on merchants, who will ultimately pass them on to consumers. These considerations appear all the more inappropriate that operational costs will be limited for PSPs: "The European Central Bank or the Eurosystem do not charge payment service providers for the costs it bears to support their provision of digital euro services to digital euro users." In clear, private intermediaries would be able to freely use a public infrastructure to generate private profits (thus benefiting from rent incomes), via the provision of a general interest service. This should call into question the opportunity of intermediaries to remunerate themselves for the provision of digital euro services.

In contrast to the approach adopted by the Commission, the digital euro needs to be seized as a means to build a true public service of payments, that would be provided independently of any profit motive.

Our feedback

- We welcome the ambition of free digital euro services for users. However, although payment service providers (PSPs) would be mandated to provide basic digital euro services free of charge, most of them (especially commercial banks) would be in a position to cross-sell digital euro services and their own services, thus adding indirect costs for users.
- Considering the structure of the costs of the digital euro infrastructure (to be largely borne by the Eurosystem), relying on a market logic for the remuneration of PSPs

would result in rent incomes, to the detriment of users.
- Provisions options devoid of any profit motive (through not-for-profit entities) should be given greater importance in order to ensure effective free access to the digital euro.

C. Universally accessible digital means of payment

While digital payments have become indispensable for a normal participation in socio-economic activities, many people are still denied access to them, especially in marginalised groups. To take only one example, in the euro area, among the poorest 40% of the population, some 20% do not use a debit or credit card.[19] In this context, the digital euro should be unconditionally accessible by any individual, no matter its socio-economic or legal status. In particular, digital euro accounts should be more accessible than bank accounts.

The Commission's Proposal stipulates that "digital euro users shall not be required to have or open non-digital euro payment accounts". So a person without a bank account could in theory have access to a digital euro account. Yet, as already emphasised, commercial banks are meant to be the main providers of digital euro services and one needs to be client of a bank to be able to access the digital euro in this way. Also, the usability of the digital euro account may be reduced for those without a bank account: the digital euro account is to be funded and defunded primarily via a bank account (funding and defunding in cash would be possible only via PSPs already offering services in cash), and no waterfall mechanism (see above) would be possible without a bank account. Unbanked persons would thus be more limited in their use of the digital euro.

For the provision of the digital euro, the Commission builds on the Payment Account Directive (PAD) adopted in 2014, that "gives people in the EU the right to a basic payment account regardless of a person's place of residence or financial situation"[20]. Following the present proposal, "the right of access to payment accounts with basic features under Directive (EU) 2014/92 (Payment Account Directive) should apply in relation to basic digital euro payment services with digital euro basic services provided for free". So access to basic digital euro services is also enshrined as a right. The PAD provides that commercial banks shall "not discriminate against consumers [...] when those consumers apply for or access a payment account". But despite these provisions, there is evidence that banks do deny access to accounts for consumers that they consider not profitable enough. Banks and other private financial institutions are selective towards their customer base and mandatory provision has proved to be of little efficiency. A similar approach should not be adopted for the digital euro if it is to be accessible by all.

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[19] Estimate based on Demirgüç-Kunt, A. et al., 2022, "The Global Findex Database 2021: Financial Inclusion, Digital Payments, and Resilience in the Age of COVID-19", World Bank Group.

[20] https://finance.ec.europa.eu/consumer-finance-and-payments/retail-financial-services/access-bank-accounts_en

As satisfactory provision of the digital euro to marginalised or excluded persons cannot be expected from commercial profit-driven providers, it is highly positive that the Commission's Proposal foresees a role for public entities: "For natural persons that do not have a non-digital euro payment account at a credit institution or do not wish to open a digital euro payment account at a credit institution or at other payment services providers distributing the digital euro, Member States should designate specific entities (i.e. local or regional authorities or postal offices) that would be required to provide the basic digital euro payment services." But again, the provision of digital euro services by public entities should not be seen as a solution of last resort, as considered here, nor should it be specifically reserved for people who would not have access to the digital euro via private providers. The risk would be for this public provision to be of low quality and to be stigmatising for those using it, thus fuelling non-take-up. Public providers should offer universal digital euro services that anybody could choose to use, in order for them to be also available for the most vulnerable.

Another solution for universal access to the digital euro concerns specifically its offline version: in order to ensure that nobody can be fenced out of its use, this offline digital euro should be accessible to non-registered users. In the same way as anybody can receive cash, anybody should be able to receive offline digital euros (for example as a gift - this would be relevant for beggars, or as a remuneration for a little job). Concretely, this would mean allowing non-registered devices for the storage of offline digital euros. In the same way as a physical leather wallet is not tied to the identity of a person, smartcards for example could be provided as non-nominative digital euro wallets. In order to enforce AML/CFT rules[21], each unregistered device could be capped with a maximum amount of digital euro it could contain. Such "universal access devices"[22] would be an efficient way of ensuring that any individual can take part in digital payments.

Our feedback

- Given the non-compliance of commercial banks with the payment accounts directive (PAD) in regard to the provision of basic payment accounts without discrimination, relying on mandatory provision for digital euro accounts cannot be considered as guaranteeing accessibility for all.
- Universal access to digital euro accounts would be better guaranteed by not-for-profit providers able to cater for the needs of vulnerable groups.
- To ensure universal access, the offline digital euro (as a bearer instrument like cash) should be accessible to non-registered users through universal access devices.

D. Financial inclusion-conducive services

Beyond access to accounts and digital means of payment, another issue is the ability of every person to properly and satisfactorily use them. It can concern various types of groups, such as

[21] Rules regarding Anti-Money Laundering / Combating the Financing of Terrorism.

[22] Miedema, J. et al., 2020, "Designing a CBDC for Universal Access", Bank of Canada Staff Analytical Notes, n° 2020-10.

people with low literacy and numeracy skills, people with low digital skills, people with disabilities, etc. The digitisation of money and payments has increased the share of vulnerable persons, and issues with the use of payment services now affect a significant share of the population. A recent study showed that in a country where digital banking and payment services are well developed such as the Netherlands, over 18% of the adult population are dependent on someone else for their use.[23]

The Commission's Proposal states that "the digital euro should have usage features that are simple and easy to handle". These features are still to be designed, which should be part of the prototyping exercises led by the ECB and preferably involving concerned persons. In any case, the legislation to be adopted should go further than this statement of intent and include common standards to be adopted by all PSPs. As digital euro services will most likely be accessed via their proprietary front-end services (the bank's mobile app for example), the risk is high of a fragmented user experience and of limited inclusivity features.

So far, private services providers have indeed shown little interest in catering for the needs of vulnerable groups. The European accessibility act, in effect since 2019 and which was meant to make products and services more accessible to persons with disabilities and elderly people, is yet to be fully implemented. In the banking sector, accessibility features that existed have disappeared in certain cases (for example audio features for blind persons on ATMs). Even a simple information obligation made to commercial banks about access to basic payment accounts (as part of the PAD) is currently not complied with.

In addition to design features, a crucial ingredient of financial inclusion is the availability of in-person services. According to the Commission's Proposal, "All payment services providers that are required to provide digital euro basic services [...] should provide digital inclusion support to persons with disabilities, functional limitations or limited digital skills, and elderly people." This requirement applies in particular to commercial banks, but it is hard to see how they would fulfil this role, especially at a time when bank branch closures are accelerating. Here again, a public service of the digital euro would more certainly ensure that vulnerable persons are able to find the information and the assistance they may need.

Our feedback

- Inclusive usage features for the digital euro (such as audio features for blind people for example) should be included in the legislation, after being developed with concerned persons. All PSPs should be mandated to include these features in their front-end solutions. The front-end solution developed by the ECB should be the benchmark of such inclusive features.
- Beyond inclusive features, in-person services should also be guaranteed by the regulation. Public entities, in particular, should be able to offer such in-person services at a time when bank branch closures are accelerating.

[23] DNB, 2023, "Digitalisation of the payment system: a solution for some, a challenge for others", De Nederlandsche Bank.

E. A privacy-enhancing means of payment

As part of the public consultations organised by the ECB and the European Commission, privacy was the most common concern raised by respondents. Public debates often refer to the perceived risk of surveillance and censorship of payments that would be associated with the digital euro. So privacy is certainly a central element on which the digital euro will gain (or not) its trust and legitimacy. And at a time when public rights are increasingly under threat, protecting the right to privacy appears as crucial. This right can currently be exercised with cash (within certain limits) and the same right should apply to the digital euro. In this case, the online and the offline versions of the digital euro have different implications in regards to privacy.

The online digital euro would necessarily generate data trails: being account-based, it would operate on a system of records (of debits and credits) for which personal data has to be processed. The question here is who has access to (and can make use of) this data: the payment services providers offering digital euro services and processing digital euro transactions. So it would mostly be the same actors as today (in the forefront of which are commercial banks), with the exception of card schemes that would be replaced by a digital euro scheme. The online digital euro would thus offer the same level of personal data protection as existing digital means of payment. This level of protection can be considered relatively low as intermediaries involved would have access to the personal data attached to every transaction.

The Commission's Proposal is concerned with the Eurosystem not being able to have access to personal data and seeks "to ensure that data is not directly attributed to an identified digital euro user by the ECB and national central banks." However, it does not specifically address the collection of personal data by (mostly private) intermediaries (which is justified by the fact that they "perform a task in the public interest"). But it is this type of economic actors that fuel an ever-developing "surveillance capitalism"[24]. To counter it, a true public option, with digital euro payments processed directly by public institutions of the Eurosystem without the involvement of any commercial entity would be more desirable. If offered, users could choose which type of provider to choose. In their communication, ECB representatives have repeated that the institution has no commercial interest in the use of personal payment data, yet the current proposal proposes little alternatives to the existing situation.

As regards to the offline digital euro, this version offers a clear opportunity for fully anonymous digital payments. An offline digital euro could be a true bearer instrument, in the same way as cash is: a uniquely-identified (digital) object that can be exchanged fully peer-to-peer, that is without the involvement of any third-party and, as a result, without the generation of any data trail. Despite the high stakes, the Commission's Proposal rules out this possibility by "excluding full anonymity". Instead, it proposes a higher level of privacy for "low-value offline proximity payments". Essentially, offline digital euros could be exchanged anonymously, but from/to devices that themselves need to be registered, that is linked to the identity of its owner. As discussed earlier, full anonymity would also allow universal access, both lost with this registration constraint.

[24] Zuboff, S., 2019, The Age of Surveillance Capitalism: The Fight for a Human Future at the New Frontier of Power, London: Profile Books Ltd.

Our feedback

- In response to the "surveillance capitalism" led by private corporations (via the widespread collection and commodification of personal data), a fully public option for digital euro payments should be made available, for involved data to be processed by entities without interests in monetising them.
- The offline digital euro should offer the same level of anonymity as cash does today: it should be possible to store it on non-registered (non-nominative) devices.

F. A more resilient payment system

Digital payment infrastructures have become systemic infrastructures in the sense that the vast majority of our socio-economic activities now depend on their proper functioning. When payment systems go down, this causes major disruptions to all sectors of our societies. Local or nation-wide outages are the regular reminders of this dependence. In the face of mounting uncertainty, linked in particular to an increase in the frequency of natural disasters, making our payment systems more resilient appears as a necessity (several governments have taken actions in regards to cash following this objective).

In order to increase the resilience of the payment system, a digital euro would need to operate in parallel with, and not on top of, the existing payment networks. But the approach followed by the ECB and endorsed by the Commission has been one of a digital euro "payment scheme", rather than an "end-to-end solution"[25]. A digital euro payment scheme would be dependent on existing payment rails, at both the issuing and acquiring ends of each transaction and would not bring any extra resilience in the event of the failure of the intermediary handling these parts of the transaction. In contrast, an end-to-end solution would bring redundancy to existing networks and increase the resilience of the payment system.

The offline digital euro is better suited to improve the resilience of our digital payment systems. If exchangeable consecutively fully peer-to-peer, it is not dependent on any infrastructure. And if fully offline (without requiring regular online settlement), digital euros could be exchanged even without any network or without electricity, as long as local storage devices have battery power. This last point pleads for simple universal access devices (as discussed above) that could take the form of low-energy smartcards.

Our feedback

- The digital euro should not be limited to a "payment scheme" but also offer an "end-to-end solution" for payments. In this way, it would bring redundancy to existing networks and increase the resilience of the payment system as a whole.

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[25] See ECB, 2022, "Distribution model options for a digital euro", 5th Digital Euro MAG meeting, 6 July 2022.

- The offline digital euro should be exchangeable consecutively in a fully peer-to-peer manner, so as to remain available in the event of internet or power outage. Low-energy smartcards should be provided for that purpose.

Conclusion: making the digital euro our common currency

With its Proposal, the ambition of the Commission is that “A digital euro would offer a public alternative to private digital means of payments”. It is indeed a relevant benchmark considering the current state of the retail payments space and the potential added value of a public alternative. Introducing a digital euro is an opportunity not to be missed and we welcome the initiation of a legislative process on the matter, following the investigation work conducted by the ECB. But as it was discussed here, the Proposal only goes part of the way towards achieving the goal stated. While the Proposal introduces the possibility to access digital euro services via public entities, their full use would still largely depend on private providers. Public entities are considered only as providing a limited palliative to the market, itself expected to fulfil most needs.

This fits into the logic of the European Commission, which states that “This proposal builds on the internal market freedom to provide payment services”, according to which a true public alternative could be considered as unfair competition. But the Proposal should also build on the fact that a digital euro is not only about payment services, but also about a new form of our common currency. Money is fundamentally a social object, underpinned by the trust placed in it by its users. Beyond the technical and functional aspects discussed above, a digital euro needs to be a public good in the more civic sense: it should reinforce a sense of belonging to a political community for citizens to be able to relate to it.

Finally, the digital euro, as a new policy tool, may also be given specific objectives in the future. The Commission limits its scope to financial innovation, stating that “A digital euro could also support European businesses for future use cases in industry 4.0 and web 3”[26]. But this scope is too narrow, as the digital euro could allow for a much broader field of innovative policies, as we show in our previous report[27]. We need a broader political debate linking the digital euro to monetary policy debate.

[26] Here, are considered “payments between machines where those machines are programmed to automatically trigger payments”.

[27] Dissaux T., Kalinowski W., op. cit.